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WORLD COTTON PROSPECTS

(March and April issues)

Summary

Cotton mill activity throughout the principal cotton consuming centers of the world continued to run at a high level during February and March. World consumption of all growths of cotton so far this year has been running at the rate of about 27,000,000 bales a year. If this rate of consumption continues throughout the rest of the season a new high will be established. American cotton continues to form a larger proportion of total consumption than was the case last year. The New York Cotton Exchange Service estimates world consumption of American in February at 1,036,000 bales as compared with 932,000 in February 1935. Mill activity in February and March in the United States and in most European countries has shown little change from the comparatively high level maintained during recent months.

Conditions in the textile industry in Japan, as indicated by yarn output and by trade reports, are somewhat improved as compared with last month, but are not quite so good as during February a year ago. However, the large supply and lowered price of Indian cotton is the most important factor which is at present discouraging the consumption of American cotton in Japan.

The release of cotton held by the Commodity Credit Corporation in the loan stock will have a significant bearing on consumption and exports for the season and the carry-over on August 1 next. Attention is now

centered on the plan announced on April 4 by the Commodity Credit Corporation which will permit the release to producers borrowers between now and September 1 of up to 1,000,000 bales of cotton now in the loan stock. The total spot sales of the Producer's Pool amounted to a little over 400,000 bales from February 1 to April 3. Total sales of spots and futures were approximately 588,000 bales.

Exports of American cotton were 406,000 bales in February as compared with 390,000 in February 1935. This is an increase of only 4 percent over the same month a year earlier and compares with an increase of 35 percent for the first 7 months of the present season over the same 7 months last season.

The latest report by the Bureau of the Census on cotton ginned places the American crop at 10,635,000 bales of 478 pounds net weight, a reduction of 99,000 bales from the previous figure of 10,734,000 bales. However, our last month's estimate of total world production in the 1935-36 season of 26,000,000 bales of 478 pounds net remains unchanged. The estimate of foreign production has been raised from 15,266,000 to 15,365,000 bales, or by the amount of the decline in the domestic crop, on the basis of indications that production in China and Brazil will probably be larger than was previously anticipated. The first preliminary estimate of acreage harvested in the 1935 season still stands at 76,000,000 for the world and 48,669,000 acres for foreign countries.

Prices

The tendency for domestic cotton prices to fall slightly, which was evident during January and February, was halted early in March, and prices during the last 2 or 3 weeks have shown increased strength. The average price of Middling 7/8 inch cotton in the 10 designated markets averaged 11.18 cents during the week ended February 29 and the week ended March 7, but were 11.33, 11.38, 11.53, and 11.61 cents for the weeks ended March 14, 21, 28, and April 5 respectively. The average for the month of March was 11.38 as compared with 11.32 in February.

Prices have been strengthened by a continuation of the relatively high level of cotton mill activity and general business conditions in this country, a shortage of desirable qualities of spot cotton outside of government hands, and larger exports and increased consumption of American cotton in foreign countries so far this year as compared with the same months last year. On the other hand, some factors, such as the general feeling throughout the trade that there will be some increase in acreage, even though it be moderate in amount, the prospective emergence of relatively few weevils this spring as a result of the unusually cold winter, the leveling off of mill activity in this country and abroad, and recent price relationships more favorable to the consumption of foreign cotton, have tended to offset the strengthening factors mentioned above.

Prices of foreign cotton have tended to weaken. The ratio of three types of Indian to two types of American at Liverpool was 84.1 in December, 83.1 in January, 81.7 in February, and 80.1 in March. However, in spite of the recent tendency for the prices of foreign cottons to decline relative to the price of American, price relationships are more favorable to the consumption of American cotton in foreign countries than was the case a year ago. The ratio of three types of Indian to types of American as given above for February and March, respectively, of this year compares with 74.8 and 75.7 during the same months last year. Brazilian cotton, in particular, has lost the price advantage which it enjoyed in the 1934-35 season. At the beginning of 1934-35, Liverpool spot market quotations on Sao Paulo Fair were 4 percent below American Middling; at the beginning of the current season this discount was down to 1½ percent, and in December, January, and February, Sao Paulo was 2 percent above American Middling. Such shifts in price relationships are, of course, fully effective only in markets where different growths of cotton compete freely.

Stocks and Movements

Trade reports continue to stress the increasingly tight position of privately held cotton. The New York Cotton Exchange Service has estimated that the total domestic stock of American cotton at the end of February, including all cotton held by growers, merchants, spinners, and the spot cotton held in government stocks was about 9,785,000 running bales or approximately 1,000,000 bales less than a year ago. Roughly, 4,900,000 bales were in the hands of the Government, of which nearly 4,500,000 bales consisted of cotton held under the 10 and 12 cent loan agreements. As was pointed out in the release of last month, should domestic consumption and exports during the balance of the year be the same as last season the amount of "free" cotton left in merchandising channels at the end of the year would be something like 1,250,000 bales, if the Government did not release a substantial amount of its holdings. A contraction of domestic consumption and exports below their improved level so far this year as compared with last year might take place if the Government was not to take advantage of this favorable opportunity to dispose of a substantial quantity of its holdings. Trade reports state that the shortage of American cotton is considerably more acute than is indicated by statistics showing the small supplies of American cotton in merchandising channels around the world. This situation arises from the shortage of certain desirable qualities outside of government hands. There are surpluses of some qualities, and those cottons are moving into consumption reasonably fast and at relatively low prices.

The Commodity Credit Corporation announced on April 4 that it will release to producer borrowers or their authorized agents up to 1,000,000 bales of cotton held under the 1934 12-cent loan 1/, or whatever fraction of 1,000,000 bales borrowing producers may desire to sell prior to September 1, 1936. Producers may obtain the cotton from the Commodity Credit Corporation by paying to the Corporation an amount equivalent to 25 points less than the average current market price of Middling 7/8 inch staple at the 10 markets on the preceding day. Provided, however, that no cotton under the 12-cent loan will be released for less than 11¼ cents per pound, and no cotton held under the 11-cent loan will be released for less than 10¼ cents per pound. In fairness to all borrowers, cotton which has had its value increased through concentration in a central market will have the cost of freight, compression, and patches added to the minimum release price. Premiums accruing by reason of grade and staple will be added to the 25 points difference between the 10-market price and the price at which the loan stock cotton may be taken over by producers.

This plan in effect provides that borrowing producers under the loan agreement may, between now and September 1, acquire up to 1,000,000 bales of cotton now in the Government-loan stock, the amount of cotton actually disposed of depending upon the extent to which its passage into trade channels affects the price. Borrowers who obtain release of their cotton may sell it through customary channels and in such quantities and at what times they desire, although the Commodity Credit Corporation reserves the right to require that a reasonable amount of the loan cotton be sold if the market will absorb it at minimum or better prices. The Government, in addition to absorbing the interest and carrying charges on the loan cotton, makes a further maximum concession of three fourths of a cent per pound from the amount loaned.

The Producers' Pool has continued to dispose of some of its holdings to ready buyers. At the close of business on Friday, April 3, its spot stock amounted to approximately 234,000 running bales. This is a reduction of 408,000 bales since the last of January when its total holdings of spots was 642,000 bales. Since February 1, the Pool's total holdings of futures have been reduced from 821,000 to 641,000 or by 180,000 bales, making a total sale of both spots and futures since February 1 of about 588,000 bales.

Exports of American cotton.-Exports amounted to 406,000 bales in February as compared with 390,000 bales in February 1935. This represents an increase of approximately 4 percent and compares with an increase in January of 13 percent over January a year ago. Exports for the 7 months, August to February, totaled 4,410,000, or about 35 percent more than for the same period last year. Figures for January and February indicate that total exports for the present season are not likely to show as much of an improvement over last season on a percentage basis as shipments abroad during the first half of the present season indicated. However, preliminary figures released by the trade make it appear probable that exports during March will compare more favorably with last year than did exports in February. During February, the United Kingdom, France, Germany, Canada, and Belgium each took approximately twice as much American cotton as in February 1935, while exports to Japan, China, Italy, and Spain declined heavily.

1/ Twelve cents loaned on cotton of 7/8 inch staple or above and 11 cents on cotton less than 7/8 inch in staple length.

The Textile Situation

World Consumption

Preliminary figures are now available showing the course of world cotton consumption during the first 7 months of 1935-36. According to statistics of the New York Cotton Exchange Service, world consumption of all kinds of cotton amounted to 15,731,000 bales of approximately 478 pounds net during the 7 months, August to February, of this season as compared with 14,974,000 bales for the same period last year and 15,062,000 in 1933-34. Consumption for this first 7 months of the season is about 5 percent above 1934-35 and 4 percent above the same 6 months in 1933-34. The increase over last year is mainly accounted for by a rise in the world consumption of American cotton from 6,597,000 bales to 7,190,000 bales, or 9 percent, although the consumption of American cotton so far this year is nearly 1,100,000 bales, or more than 13 percent less than it was during the same 7 months in 1933-34. World consumption of foreign cotton was lower during November, December, and January than during the same 3 months last year, although for the whole period August to January, consumption was 90,000 bales more than for the same period last year and 1,557,000 bales more than in 1933-34. World consumption of American cotton is continuing to run above that for last year, consumption of American cotton in February having recently been estimated at 1,036,000 bales compared with 932,000 in the same month last year.

It will be seen from the above consumption estimates that the world consumption of all cotton in the first half of the season was at the record-breaking rate of about 27,000,000 bales a year. The previous maximum for any single season is 25,800,000 bales. If world consumption during the remainder of the year continues at the rate established so far this season, consumption will exceed by 1,000,000 bales the latest estimate of production in the 1935-36 season of 26,000,000 bales. If we were to substitute a figure for estimated commercial cotton production for the figure of total production, world mill consumption would show a still greater excess over estimated production, since parts of both the Chinese and Indian crops are used in household spinning. World cotton mill consumption is at this high level in spite of the competition of rayon and other competing fibers, continued widespread unemployment, trade barriers, and a shortage of foreign exchange in numerous countries. Some of the reasons advanced as an explanation of this rise in consumption are: a rather high level of industrial production, which in the leading countries of the world is now mostly up to the pre-depression level, new uses for cotton goods; low cotton prices which tend to stimulate cotton consumption, especially in foreign countries where the demand for cotton is more elastic; the production of increased quantities and better qualities of cotton by foreign cotton growing countries; the comparative freedom of raw cotton from tariffs and quotas which directly affect its movement; and the great expansion of textile manufacturing in the Orient with resulting lowered prices to consumers. The belief is expressed that the mill consumption of cotton in the near future may grow to even larger proportions unless the growth of world production and trade which has been under way since the summer of 1932 is checked by war. However, when thinking of the consumption of American cotton it is necessary to remember the probable effects of the large foreign crop most of which moves into trade channels during the second half of the season. It should

be noted also that, in spite of the increased consumption of American cotton as compared with last year, the record high rate of world consumption is due primarily to the very high rate at which the world is using foreign growths. Consumption of foreign growths throughout the world in August-February of this season is estimated to have totaled 8,541,000 bales compared with 8,377,000 in the same period last season and an average of 6,842,000 in the past 5 seasons. Thus, while the consumption of American shows an increase of 9 percent over the same 7 months last year, it has declined slightly as compared with the average world consumption during this period from 1930-31 to 1934-35. The consumption of foreign cotton shows an increase of 2 percent and nearly 25 percent respectively, over last year and the average for the last 5 years.

United States.- Textile activity during most of February and March continued to run close to the 1922-1927 average, according to the New York Cotton Exchange Service Index of Cotton Manufacturing. March and the latter part of February found the mills in a less strong position with respect to sales and stocks, although it has had very little effect on activity. The volume of cloth sales, while of fair volume, has been lagging behind production and cloth prices have been irregular and margins on standard unfinished goods have narrowed. With uncertainties about government policy as to production control, disposition of its cotton holdings and the imposition of processing taxes, trade reports indicate that there has been some hesitation in making cloth purchases ever since the Supreme Court decision on the Agricultural Adjustment Act was handed down. Cotton consumption in February amounted to 516,000 bales as compared with 478,000 in February of last year. This is an increase of between 7 and 8 percent over last year. Consumption for the 7 months ended February 28 was between 11 and 12 percent greater than in the same period last year. At the present time interest of the trade is centered on New England where it has been reported that floods have caused serious damage to textile plants. The trade feels that if the damage approaches the amount reported, consumption in the latter part of March and in April will be adversely affected.

Europe 2/.- The new year opened with quite favorable conditions prevailing in the cotton textile industry of western Europe and the Danubian countries except Czechoslovakia. In Italy as well as Czechoslovakia, the situation was unpromising and in Germany, though mill occupation was still fairly satisfactory, there were increasing difficulties in the procurement of adequate supplies of raw cotton, especially of the desired qualities, and the outlook was not too favorable.

During January and February, mill sales of cotton yarn and cotton cloth retained fair levels in England and Germany, despite slackness in certain items, and German sales of yarn were even fairly good except for Egyptian counts, which experienced severe competition from British offers. France and Belgium as well as other Danubian countries reported a good revival in mill business following the quiet holiday period. The Czechoslovakian cotton industry continued to report a very unsatisfactory mill business, aggravated by the restriction of the National Bank on the exportation of cotton yarn to various clearing countries.

2/ Based largely upon a report from Agricultural Attache Lloyd V. Steere at Berlin.

Cotton mill activity in Europe continued on fairly favorable levels in England, western Continent and parts of Central Europe, but remained very unsatisfactory in Czechoslovakia and Italy.

Raw cotton buying.- Buying of raw cotton by European cotton spinners and merchants during January and February was somewhat hampered by the downward trend in raw cotton prices and uncertainty as to legislative developments in the United States affecting the possible control of 1936 acreage. Purchases by Germany and Italy continued to be especially restricted by the lack of foreign exchange in these countries, but it is evident from export figures that during recent months German consumption of American cotton has increased considerably as compared with a year ago.

The unsatisfactory quality of those exotic growths that are still available to Germany on a Reichsmark basis is indicated, by numerous reports, to be becoming a serious problem; increased importation of very undesirable types of raw cotton which have only limited uses, such as some low grade Brazilian and Chinese, have had to be checked by the authorities. It has been reported that negotiations over a conditional withdrawal or modification of the May 1935 decision of the Brazilian Government to export cotton only against payment in devisen 3/ are going on. It is apparently essential for Germany to make some arrangement for the procurement of the necessary qualities of raw cotton if the industry is to avoid further curtailment of operations.

Utilization of staple fiber.- Increased production of mixed cotton and staple fiber yarns by cotton spinning mills in Germany has recently been reported from various parts of the country. The increased utilization of staple fiber by German spinning mills is accounted for by the officially acquired admixture, effective January 1, of 16 percent of staple fiber, on the average, to the bulk of the cotton consumed by spinning mills. Since this admixture would replace raw cotton to the extent of approximately 150,000 bales of 478 pounds annually, the mills will find it difficult, at least for a time, to secure the necessary staple fiber, German production of which in 1935 was only about 70,000 bales of 478 pounds net, and a good share of which was mixed with wool. On the other hand, some was used in the manufacture of fabrics made entirely from staple fiber. It is anticipated that the completion of factories now under construction will permit the production of staple fiber to be pushed up to an annual rate of 200,000 bales by sometime in 1936.

Staple fiber production in Italy has been estimated by the Snia-Viscosa to have been equivalent to 130,000 bales of 478 pounds net in 1935 and the production program for 1936 is reported to be 200,000 bales.

3/ The decree of the Brazilian Government provided in effect that payment for Brazilian cotton could be made only in a freely accepted international standard of value. This prevented Germany from continuing to purchase large quantities of Brazilian cotton and making payment in blocked or compensation marks which could be used only in the purchase of German goods.

England 4/ .- January and February business in the British cotton trade continued relatively satisfactory although some complaints were heard regarding yarn business, notably in the Egyptian section. Business in piece goods was mixed, with cautious buying from India, and a very poor volume of demand from China was reported throughout the period. Somewhat better export business developed in the trade with the Dominions and South Africa.

Deliveries of raw cotton to spinning mills in Great Britain continued on relatively high levels in February with deliveries of American that month slightly below January, although considerably higher than a year earlier. Employment in the cotton industry during January was slightly lower than in December, notably in the weaving branch, but spinning showed little or no decline.

Raw cotton imports into Great Britain so far this season have been high and compare very favorably with takings 1, 2, and 3 years ago. The share of American cotton continued to maintain its great increase over last season, and it is expected that this favorable relationship will continue for the remainder of the season. British stocks of raw cotton remain low in comparison with previous years.

Trading in American cotton at Liverpool was reported to have been dull during February because of uncertainty concerning legislative developments in the United States in regard to possible further control of acreage. Uncertainty as to what policy will be followed with respect to the sale of American Government cotton was also a factor reported to have been of considerable influence.

Germany.- Cotton sales and occupation in January and February continued relatively satisfactory, though Egyptian cotton spinners complained of severe British competition. It also has been reported that new orders for yarn and cloth, especially for later delivery, were placed with caution, and that the wholesale trade was still less inclined to buy than had been expected for the spring season.

Increased utilization of staple fiber and production of mixed yarns has occurred since January 1 as a result of the required admixture of 16 percent staple fiber, on an average, to the quantity of raw cotton utilized, according to an unpublished ordinance of the cotton supervisory office, contained in a circulating letter to each spinning mill. This order required the admixture of varying percentages of fiber in the manufacture of cotton yarn of medium counts, the average admixture being estimated at 16 percent of the raw cotton utilized in the manufacture of medium counts, or about 150,000 bales of 478 pounds annually. Since present German production of staple fiber is still much below that figure (1935; 70,000 bales, of which a good share was manufactured into pure staple fibre fabrics or mixed with wool), spinners will find it difficult to comply with the ordinance. As a matter of fact, staple fiber factories are now reported to be flooded with orders and are sold out for several months ahead. It is expected that the completion of the new plants in the summer will provide increased supplies. German staple fiber production in 1936 is expected to rise to a rate of 200,000 bales per annum sometime during 1936. Reports from the Textile Fair at Leipzig indicate that mixed cotton and staple fibre piece goods have had rather good business.

4/ Based largely on the report prepared in the office of the Agricultural Attaché at London, dated February 28, 1936.

Raw cotton buying by German spinners and merchants continued restricted in January and February, but increased quantities of cotton, notably Turkish and other exotic types, have been acquired on a Reichsmark basis. It is surprising how well German raw cotton imports have been maintained so far this season. August - January 1935-36 imports amounted to 830,000 bales, compared with only 489,000 bales imported in August - January 1934-35, 950,000 bales in the corresponding period of 1933-34, and 927,000 bales in August - January 1932-33. The share of American cotton taken has increased appreciably in recent months, but it is said that this increase as well as the recent increase in total imports is largely due to the importation of undesirable low grades of cotton (American, Brazilian, Chinese, etc) which has but limited uses. The authorities are reported to have had to put a check to further purchases of such cottons the availability of which, against payment in marks, has apparently been a temptation to accumulate stocks.

Importation of all cotton spinning material (raw cootn, cotton waste, regenerated cotton) has also been rather high, and supplies retained (imports less exports) in August - January 1935-36 have been much higher than in 1934-35 when reduction of the now depleted stocks occurred. As a matter of fact, retained supplies in August - January 1935-36 even approximated those of the corresponding period of 1933-34 when imports were unrestricted and ran fairly high. There has been, however, an important shift from cotton toward cotton waste and other cotton materials, and the share of cotton waste and other material in the total was much larger in 1935-36 than in 1933-34.

Czechoslovakia.- Conditions in the Czechoslovakian cotton textile industry during January and February continued unsatisfactory and were even further aggravated by the restrictions on the exportation of cotton yarn to Austria, Yugoslavia, Rumania, and Bulgaria imposed by the National Bank 5/.

Compulsory cartelization or syndication of the Czechoslovakian cotton textile industry is now definitely planned by the authorities under active, though partly conditional, support by organizations of the cotton industry. The syndicate is to regulate conditions on the domestic market, but also to further exports of textile goods. The authorities apparently also contemplate that raw material imports should be distributed through allotments by the syndicate, and that raw cotton should be subject to the import license procedure. A proposal for compulsory syndication has been worked out in detail by the Central Textile Association and has been submitted to the Government.

A recent press report indicates that it is planned to carry out experiments with cotton growing in Carpathian Russia (Slovakia). The Chamber of Agriculture, under whose auspices the experiment is to be carried out, is reported to have obtained the required seed from one of the Russian experiment stations. Skepticism has been expressed about the possibilities of success, and seem fully warranted.

5/ See World Cotton Prospects, March 9, 1936, page 9.

Austria.- Very favorable conditions persisted in the Austrian cotton textile industry during January and February. At the beginning of the new year occupation of the existing mills was the highest in post-war history. Cotton spinners were working at 35 percent above single shift capacity, weavers at about 100 percent of single shift capacity. That cloth mills are gradually moving toward the long needed rationalization is apparent from the fact that of the 14,500 looms in place at the beginning of January, 3,800 were being kept idle, while 4,400 were running double and 200 looms triple shift.

France.- Favorable yarn and cloth business in January and February was reported from France, notably Rouen and Mulhouse. The satisfactory trend of trading and mill activity continued, and it was evident that at the beginning of 1936 conditions were greatly improved as compared with a year ago. Production and deliveries by spinning and weaving mills were not only much higher than a year ago, but stocks of yarn and fabrics were considerably less than a year ago.

Denmark.- The improvement maintained in general economic conditions, and rising agricultural purchasing power has made for a favorable situation of the Danish cotton textile industry as well. Industries generally are in a basic process of expansion in Denmark. Cotton spinning mills were reported to have worked at full capacity up to the end of February, but an extensive lockout has reduced production in March. This situation, however, is not expected to continue for any length of time.

Yugoslavia.- As a result of the Czechoslovakian yarn export restriction, yarn prices in Yugoslavia have risen considerably despite active competition from Japan. Japanese offers of cotton yarn are partly accepted in the place of Czechoslovakian, but the quality is said to be unsatisfactory.

Soviet Russia.- Total production of cotton fabrics in the Soviet Union in 1935 is reported to have amounted to 2,876,000,000 yards, according to recent statements of high Soviet officials 6/. This is reported to be 97.7 percent of the yearly plan, implying a plan of 2,944,000,000 yards, as compared with the original plan of total fabrics production of 3,062,000,000 yards 7/.

6/ Chairman of the Gosplan, Izvestiia, January 12, 1936, and Commissar of the Light Industry of the USSR, Izvestiia, January 15, 1936.

7/ This, however, may not mean a revision of the plan, since statistics on textile production are complicated by the existence of various sets of figures. Thus, there is a set of figures comprising only the output of the enterprises of the Commissariat of the Light Industry, one covering the Commissariat of the Light Industry and the Commissariat of the Local Industries, another set comprising enterprises formerly encompassed by the Chief Administration of the Cotton Industry, and a set of all cotton fabrics, including fabrics such as foundation-muslin, technical fabrics, fabrics woven by hand, etc., as well as a set excluding such fabrics. These are only the most important sources of existing discrepancies. Therefore, particular care must be exercised in making comparisons and no attempt should be made to complete or compare the available data by or with other statistics unless certainty exists as to what the figures refer to.

The plan for 1936 provides for a total production of cotton fabrics of 3,516,000,000 yards, which would be an increase of 22 percent as compared with the reported output in 1935. The January production plan is indicated to have been executed by 101.7 percent, but information at hand gives no absolute figures. The output of the enterprises of the Commissariat of the Light Industry, comprising approximately 79 percent of the total output in the case of fabrics and 82 percent in the case of yarn according to the 1935 plan, was reported 8/ to have been as follows in recent months:

1935	Finished cotton fabrics 9/, 1,000 yards	Cotton yarn 9/, Bales of 400 pounds
Aug.	152,948	121,253
Sept.	223,094	110,230
Oct.	212,377	160,159
Nov.	203,300	151,236
Dec. (prel.)	222,438	Not available

Japan.- The outlook for the Japanese textile industry which was rather dull in January as compared with the very high level of activity at the same time last year, improved somewhat during February. Trade reports indicate a probability that this improvement is continuing through March. Yarn production in February amounted to 295,442 bales as compared with 281,500 in January but was between 3 and 4 percent less than production in February 1935, although with that exception it was the highest production for the month in history.

Exports of American cotton to Japan in February according to reports of the Bureau of the Census, were 55,391 bales as compared with 98,026 bales during the same month last year. However, exports during the 7 months, August - February, were only slightly under those of last year, 1,114,938 bales as compared with 1,157,508 bales.

Trade reports indicate that which, in view of the large Indian crop, has been expected, namely the continuing decline in prices of Indian cotton relative to American is causing Japanese spinners to switch from American to Indian. American was cheap relative to Indian last autumn, but since the first of the year it has tended to become dear. It is reported that on certain qualities the price spread between American and Indian in the

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8/ Obtained through the aid of the American Embassy at Moscow.

9/ These figures are not comparable to the above figures on total annual production which, in addition to the output of the Commissariat of the Light Industry, includes production of the Commissariat of the Local Industries as well. On the basis of information incorporated in a memorandum of the Embassy it appears that the monthly figures published in the general press refer to production of the Commissariat of the Light Industry only. This explains the discrepancy existing between the totals calculated from such monthly data and the totals given in the Soviet Statistical Yearbook as well as in most speeches of officials.

Osaka market has widened about 1 cent a pound in the last 4 months. Undoubtedly, in addition to large supplies of Indian cotton, the small supply of American in marketing channels and the scarcity of certain desirable qualities of American are factors which are encouraging the consumption of Indian at the expense of American.

Production, Acreage and Crop Conditions

Russia.- The latest reported figures on cotton procurements from the 1935 crop in the Soviet Union indicate that the procuring plan was exceeded by 13 percent as of February 1, 1936, when the campaign can be regarded as completed. On the basis of this report the procurements should amount to about 1,700,000 metric tons of seed cotton, equivalent to between 2,400,000 and 2,600,000 bales of lint, depending upon the ginning outturn. Reports, however, in the Soviet press which appeared originally at the end of December and indicated that a large quantity of cotton was spoiled, have continued. (See Foreign Crops and Markets, February 3, 1936, page 145). Thus, a report in Izvestiia for March 9, 1936, points out that a large quantity of cotton of high moisture content was procured in Uzbekistan, the principal Soviet cotton-growing area, and no steps were taken to dry it. It was stated that 50,000 tons of cotton were spoiled at the procuring points and ginneries. The storing conditions are described as very bad, with consequent heavy losses of cotton. Furthermore, it appears that cotton was often reported as procured while it was still unpicked in the fields. The exact amount of such cotton not actually delivered is not known. But four districts out of 90 which reported 100 percent fulfillment of the procuring plan have actually fulfilled not more than 94 percent of the plan on the average.

Conditions described in this and other reports warrant a certain skepticism with regard to the reported large figures of Soviet cotton procurements which may later be revised downward when more complete information of actually delivered and unspoiled cotton are available. In view of these reports it seems reasonable to believe that the Russian crop will be somewhere in the neighborhood of 2,250,000 bales.

1936 planned production 10/.- The Soviet goal for 1936 is the achievement of a crop of more than 3,000,000 bales of ginned fiber, the exact quantity depending upon the ginning outturn from an acreage practically equal to that of 1935, which would necessitate a further increase of the yield by about 20 percent.

The 1936 cotton contraction plan, which was announced at the end of February, provides for a quantity of about 5,700,000 bales of unginned cotton to be contracted for with collectives and individual peasants, as compared with 6,480,000 bales, the original plan for 1935 and 6,200,000 bales, the later revised figure. Cotton delivered on the basis of "contraction" agreements with collectives and individual peasants constitutes the bulk of all cotton delivered to the Government, in fact almost 90 percent in 1935. Of the total quantity to be contracted for, 329,000 bales are to consist of cotton grown from Egyptian seed, as compared with 285,000 bales for 1935.

10/Most figures were reported in metric tons of unginned cotton. Such figures have been converted to a ginned basis, assuming 69 percent seed and 31 percent lint. In some cases a range of 31 to 33 is used to represent lint percentage, but 31 is believed to be the closest possible approximation.

High yield premiums.- The system of premiums for cotton delivered in excess of the plan inaugurated last year, which seemingly has been of favorable influence upon yields in 1935, is to be retained for the 1936 campaign, but in modified form for the high yield groups. It now provides for a premium of 200 percent to be paid in the irrigated regions in addition to the prevailing procuring price for cotton (American types) delivered in excess of approximately 415 pounds per acre (exact quantity depending upon outturn) in cases where the plan provides for more than 415 pounds per acre irrespective of the quantity actually contracted for. Last year premiums were paid only for the quantities delivered in excess of the planned yields. Similar premiums are fixed for collectives growing Egyptian cotton whose plan calls for more than 277 pounds per acre. A premium of 150 percent will be paid in the nonirrigated regions for cotton (American types) delivered in excess of 70 pounds per acre, if the plan is above 70 pounds per acre. This means that premiums will be paid for attaining the plan in these categories, in all instances, and that the highest yielding farms will not even need to achieve that plan to obtain premiums.

It has been stated in this connection that about 350,000,000 rubles of premiums have been paid out to the collectives for the 1935 crop and a larger sum is expected for 1936.

Cotton sowing campaign.- Preparations for the cotton planting campaign are going on actively and latest reports indicate that they are more advanced than at the same time a year ago, though an earlier report complained of the slowing-up of the pace of fallow ploughing and tractor repairs, as well as of poor execution of the fall and winter irrigation plans.

Increased mechanization and fertilization are characteristics of this year's plans, with 1,278,000 acres expected to be sown by tractors this year in the irrigated regions and supplies of mineral fertilizer to be more than doubled as compared with 1935, 2,347,000 acres of cotton compared with 1,359,000 in 1935 are to receive mineral fertilizer, in addition to a larger quantity of oil cake.

Egypt.- Ginnings of Egyptian cotton to the first of March totaled 1,594,000 bales of 478 pounds net weight, made up of 163,000 bales of Sakellaridis, 1,397,000 bales of other varieties, and 34,000 bales of Scarto as compared with 1,379,000, 166,000, 1,184,000 and 29,000 bales respectively, on the same date last season.

Brazil.- The first estimate of the cotton crop in Southern Brazil for the present 1935-36 season is for a production of approximately 904,000 bales. Cotton is planted in Southern Brazil from September to November . Harvesting which has been in progress since March will be completed about the last of July. The forecast of production for the present season is about 48 percent above the final estimate of 610,000 bales for the 1934-35 crop, but only 6 percent above the first estimate made at this time last year. Early forecasts of last year's production were substantially scaled down in the final estimate.

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The crop in Northern Brazil planted from January to May and harvested from August to November, has been estimated to amount to 839,000 bales. This is the second official estimate and compares with a first estimate for this season of 1,086,000 bales, a second estimate for last year of 738,000 bales and a final estimate for last season of 722,000 bales.

On the basis of present estimates, the total Brazilian crop for 1935-36 will be approximately 1,743,000 bales. Of course, the crop in Southern Brazil may be substantially reduced in later estimates.

Statistics of Brazilian cotton production during recent years indicate not only the increased importance of Brazil as a producer of cotton but also the significant shift in the relative importance of the two principal producing regions. The present estimate of 1,743,000 bales for the 1935-36 crop compares with 1,332,000 bales in 1934-35 and 1,011,000 in 1933-34. About 54 percent of the 1934-35 crop was produced in Northern Brazil and 46 percent in the Southern States. The average crop for the 5 years ended with 1932-33, was 505,000 bales of which 79 percent was produced in the Northern States and 21 percent in the Southern States. Since most of the cotton produced in Northern Brazil is relatively long in staple and not so directly competitive with the bulk of the American crop, while, practically all cotton raised in Southern Brazil is from American Upland seed, the recent increases in Brazilian production mean not only a proportionate increase in the total world supply of all cotton, but a more than proportionate increase in the supply of foreign cotton which is directly competitive with American.

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